Notice of a Special Meeting of the
AUDIT/FINANCE COMMITTEE and/or CITY COUNCIL
3:00 p.m. – Monday, May 18, 2015
PASADENA CITY HALL - COUNCIL CHAMBERS ROOM S249

NOTICE IS HEREBY GIVEN that a special meeting of the Audit/Finance Committee and/or City Council will be held **Monday, May 18, 2015** at **3:00 p.m.** in the **COUNCIL CHAMBERS ROOM S249**, at City of Pasadena City Hall, 100 N. Garfield Ave., Pasadena, California.

A. CALL TO ORDER

B. NEW BUSINESS

1. Authorization to Enter into a Contract with Lance, Soll & Lunghard LLP, Certified Public Accountants, For Audit Services for Fiscal Years 2015-2017, With Two One-Year Options

C. **PUBLIC HEARING: FISCAL YEAR 2016 RECOMMENDED OPERATING BUDGET**
Recommendation: It is recommended that the City Council:
1. Open the public hearing on the City Manager's Recommended FY 2016 Operating Budget;
2. Continue the public hearing to each subsequent regular meeting of the City Council at 7:00 p.m. , until June 22, 2015, or such other date as the City Council may determine, and, at which time, the City Council will be asked to close the public hearing and formally adopt the Fiscal Year 2016 Recommended Operating Budget

Discussion as part of the public hearing regarding Fiscal Year 2016 Recommended Operating Budget:
*Affiliated Agencies:
a) PCOC
b) PCAC
c) RBOC

*Attachments in City Council Packets to be delivered separately

D. ADJOURN SPECIAL MEETING

TERRY TORNEK, Mayor
Chair, Finance Committee

Note to the public: ***Public comment is limited to items on this agenda. An opportunity for public comment will be provided when the items are discussed. Please limit comments to no more than three minutes.***

This notice, in its entirety, was posted at City Hall and distributed as indicated below by 5:30 p.m. on Thursday, MAY 14TH, 2015.

Veronica Jones, Recording Secretary
Finance Committee

Distribution:

City Council	Los Angeles Times	City Manager
Star-News	City Attorney	Pasadena Weekly
City Clerk	La Opinion	Main Library
Pasadena Journal	Council Chambers Bulletin Board	City Hall Front Kiosk

Agenda Report

May 18, 2015

TO: Honorable Mayor and City Council/Successor to Pasadena Community Development Commission

THROUGH: Audit Committee

FROM: Interim Director of Finance

SUBJECT: **AUTHORIZATION TO ENTER INTO A CONTRACT WITH LANCE, SOLL & LUNGHARD LLP, CERTIFIED PUBLIC ACCOUNTANTS FOR AUDIT SERVICES FOR FISCAL YEARS 2015 – 2017, WITH TWO ONE YEAR OPTIONS**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project;

2. Authorize the City Manager to execute a contract with Lance, Soll & Lunghard LLP, Certified Public Accountants to perform the annual audits of the financial statements of the City of Pasadena, the Successor to the Pasadena Community Development Commission, the Rose Bowl Operating Company, the Pasadena Center Operating Company, and the Pasadena Community Access Corporation, selecting Option 2 in an amount of $699,212 for three years; and

3. Authorize the City Manager or designee to negotiate a redistribution of the amounts for each component of the engagement to more appropriately represent the required effort for each portion. This will not change the overall total contract amount.

BACKGROUND:

Section 912 of the City Charter requires the City Council to employ a certified public accountant to examine the City's records, books, and inventories and report findings to the City Council.

It is the policy and practice of the City of Pasadena to open the audit contract to competitive bids every three to five years.

Brown Armstrong Accountancy Corporation has been the City's auditor and has performed the annual audits since fiscal year 2011 when the firm was selected through a competitive selection process. In February 2015, the City informed Brown Armstrong that it did not intend to extend its audit contract for the final optional year available under Contract No. 20,654.

On February 5, 2015, Request For Proposal (RFP) packets were made available on the City's website and notice was sent to all vendors who had previously registered for notification. Additionally, Finance notified thirteen auditing firms. Final proposals were due March 12, 2015. Eight firms submitted proposals.

Each firm was evaluated based on the competitive selection process, in which the evaluation of proposals was not limited to price alone. Technical merit and firm expertise and capacity were also given significant consideration in the selection process. Additionally, six additional criteria were added to the requested services in view of the City's recent embezzlement. These were:

1. Audit sample size to be increased beyond those required by professional audit standards.
2. Disclosure of methods for testing each of the City's funds
3. Description of what an "all-funds" audit would be and if there are optional levels of testing above professional standards
4. Complete descriptions of optional levels and related pricing
5. In view of embezzlement what cost effective options can be taken
6. Impact of City implementation of new ERP system, Tyler Munis

The competitive selection evaluation criteria were as follows:

Firm Qualifications: Technical experience of the firm as documented by experience in auditing similar entities and performing the type of work outlined; size and structure of the firm; and ability to provide ongoing technical support when necessary. (25 points)

Personnel Qualifications: Qualifications of partners and staff at various levels. The City expects the field senior in-charge to be a CPA with at least three years' experience in auditing municipalities or other governmental entities. (25 points)

Methodology: Responsiveness of the proposal in clearly stating an understanding of the audit service to be performed, including appropriateness and adequacy of proposed procedures, reasonableness of time estimates and timeliness of expected completion. (10 points)

Methodology of Expanded Scope: Responsiveness of the proposal in clearly stating an understanding of and actions proposed to address the expanded scope and optional services to be performed. (15 points)

Dollar Cost Bid: Cost of contracted services. (15 points)

Local Preference: Local Pasadena Businesses receive a 5 percent preference. (5 points)

Small and Micro-Business: Small and Micro-businesses receive a 5 percent preference. (5 points)

Based on an initial screening, the top four firms were interviewed separately on April 20, and 22, 2015. The interviewing team included the Retired Finance Director on Special Assignment to the City Manager, Controller, Assistant General Manager of Pasadena Water and Power, Chief Financial Officers of RBOC and PCOC, and one member of the Audit Committee. Additionally, an Ad Hoc Group of the Task Force on Financial Administration and Internal Control was given a presentation by Lance, Soll & Lunghard and concurred with the staff recommendation.

The top four firms were ranked as follows (100 points possible):

Lance, Soll & Lunghard, LLP	82.3
Macias Gini & O'Connell LLP	80.8
The Pun Group	69.7
Gallina LLP	59.0

The recommendation for selection of Lance, Soll & Lunghard is based on evaluation of the selection criteria and includes:

Firm Qualifications:

- Regional accounting firm which specializes in municipal audits
- Member of American Institute of Certified Public Accountants (AICPA) Private Companies Practice Section
- Three shareholders who specialize in governmental auditing
- Currently auditing approximately 47 government agencies
- Sixty five employees, 45 who specialize in municipal auditing
- Five current audit engagements with Cities utilizing Tyler Munis (our new software)

- Three office locations; Brea, Temecula, and Silicon Valley
- Lance, Soll & Lunghard performed an Agreed Upon Procedures Study of all City Parking Structures in 2013 for $54,000.

Personnel Qualifications:

- Partners who sit on the Governmental Accounting Auditing (GAA) Committee, a subcommittee of the California Society of CPAs, addressing such issues as RDA dissolution and GASB 68.
- Partner who sits on the National AICPA Government Audit Quality Center (GAQC) Executive Committee.
- Audit Manager elected to California Society of CPAs Technology Committee.
- Seasoned engagement staff, where Pasadena is not the training ground.

Methodology:

- All firms interviewed demonstrated their understanding of the standard audit services to be performed. However, Lance, Soll & Lunghard (LSL) stood out as having the proposal which best responded to the unique expanded scope methodology and provided three specific optional levels of service.
- LSL provided an in-depth response to explain how they would include "all-funds" and expand the audit samples sizes with inclusion of every fund.
- LSL's response included a review of the status of all KPMG recommendations to ensure that all recommendations are implemented, are in progress, or the reason for not implementing (which would then require compensating controls). For each implemented recommendations, they will perform a walk-through of one transaction from start to finish verifying that the controls are in place and working as intended.
- LSL will also select samples from targeted areas to ensure controls are being performed consistently.
- LSL's will perform our audits with an assumed risk assessment of high and materiality level lower than required by professional standards.

Options Offered:

- Lance, Soll & Lunghard's proposal included pricing at three levels of work:
  - An audit performed to generally accepted auditing standards ($165,649 for FY 2015)
  - Option 1 includes testing of all funds with samples to be selected randomly from all funds using IDEA data analysis software. An estimated 300 hours will be added to the audit for this option. ($195,485 for FY 2015).
  - Option 2 will provide a higher level of testing in all funds and is in addition to the Option 1 tasks. Materiality of all major funds will be lowered by 25% and materiality will be calculated for each non-major fund. Samples will include all individual transactions over each fund materiality level. An additional 300 hours will be added to the audit for Option 2. ($226,123 for FY 2015).

The recommended action is selection of Option 2, which provides for expanded scope requiring audit of all funds, increased sample size, and additional testing in response to the City's recent embezzlement.

Dollar Cost Bid:

Primary office locations, one, and three year audit costs for the eight firms are listed below:

FIRM	LOCATION	1 YEAR COST	3 YEAR COST
Brown Armstrong	Pasadena & Bakersfield	$ 329,625	$ 991,440
Gallina	Roseville	117,070	325,887
Lance, Soll & Lunghard	Brea	226,123	699,212
Macias Gini & O'Connell	Los Angeles	989,375	3,039,993
Moss, Levy & Hartzheim	Culver City	99,576	304,220
The Pun Group	Santa Ana	225,000	688,500
Sotomayer & Associates	Pasadena	116,355	355,065
Vasquez & Company	Los Angeles	$ 246,220	$ 746,534

As requested in recommendation 3, the City believes that some redistribution of audit costs should be negotiated primarily to transfer some of the costs away from the Pasadena Community Access Corporation (PCAC) and to allocate some cost to the Successor to the Pasadena Community Development Commission. PCAC is a much smaller operation than the other component units and will require fewer hours than are reflected in the current pricing. Audit of the Successor to the Pasadena Community Development Commission did not receive any allocation of the overall audit costs.

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

The maximum costs of fiscal years 2015 through 2017 audits and two optional one year extensions under the terms of the proposed contract are listed below. Funds for the FY2015 audit are included in the FY2016 Recommended Operating Budget. The Rose Bowl Operating Company, the Pasadena Center Operating Company, and the Pasadena Community Access Corporation will pay for their respective audits.

	FY2015	FY2016	FY2017	FY2018*	FY2019*
City	$ 139,215	$ 143,411	$ 147,880	$ 152,140	$ 156,861
Single Audit	23,010	23,710	24,430	25,134	25,920
PCOC	19,958	20,562	21,188	21,798	22,480
RBOC	23,982	24,706	25,452	26,182	27,008
PCAC	19,958	20,562	21,188	21,798	22,480
Total	$ 226,123	$ 232,951	$ 240,138	$ 247,052	$ 254,749

* Two optional one year extensions of contract at City Manager discretion

Respectfully submitted,

JULIE A. GUTIERREZ
Interim Director of Finance

Prepared by:

Robert S. Ridley
Controller

Approved by:

MICHAEL J. BECK
City Manager

Attachment 1: Taxpayer Protection Amendment

TAXPAYER PROTECTION AMENDMENT

Under the provisions of the City of Pasadena Taxpayer Protection Amendment ("Taxpayer Protection Act"), the Contractor/Organization will be considered a "recipient of a public benefit." The full provisions of the Taxpayer Protection Act are set forth in Pasadena City Charter, Article XVII. Under the Taxpayer Protection Act, City public officials who approve this Contract are prohibited from receiving specified gifts, campaign contributions or employment from Contractor for a specified time. As well, if this Contract is to be approved by the City Council, Councilmembers or candidates for Council are prohibited from receiving campaign contributions during the time this Contract is being negotiated. This prohibition extends to individuals and entities that are specified and identified in the Taxpayer Protection Act and includes Contractor/Organization and its trustees, directors, partners, corporate officers and those with more than a 10% equity, participation, or revenue interest in Contractor/Organization. Contractor/Organization understands and agrees that: (A) Contractor/Organization is aware of the Taxpayer Protection Act; (B) Contractor/Organization will complete and return the forms provided by the City in order to identify all of the recipients of a public benefit specified in the Taxpayer Protection Act; and (C) Contractor/Organization will not make any prohibited gift, campaign contribution or offer of employment to any public official who negotiated and/or approved this Contract.

Disclosure Pursuant to the
City of Pasadena Taxpayer Protection Amendment
Pasadena City Charter, Article XVII

Contractor/Organization hereby discloses its trustees, directors, partners, officers, and those with more than 10% equity, participation, or revenue interest in Contractor/Organization, as follows:

(If printing, please print legibly. Use additional sheets as necessary.)

1. Contractor/Organization Name: Lance, Soll & Lunghard LLP

2. Type of Entity:
☒ non-government ☐ nonprofit 501(c)(3), (4), or (6)

3. Name(s) of trustees, directors, partners, officers of Contractor/Organization:

Richard K. Kikuchi, CPA, Managing Partner
Dave E. Hale, CPA, CFP, Partner
Don G. Slater, CPA, Partner
Sue F, Matz, CPA, Partner
Bryan S. Gruber, CPA, Partner
Deborah A. Harper, CPA, Partner
Gary A. Cates, CPA, Partner
Michael D. Mangold, CPA, Partner
David Myers, CPA, Partner

4. Names of those with more than a 10% equity, participation or revenue interest in Contractor/Organization:

Prepared by: [signature]

Title: Partner

Phone: 714-672-0022

Date: March 2, 2015

Rev.07.10.2007